



Attachment 1

Michael C. Schlachter, CFA
Managing Director & Principal

July 27, 2011

Dr. George Diehr
Chair, Investment Committee
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95814

Re: Global Equity – Graduation of Fan Long Only Portfolio from Developmental Investment Fund

Dear Dr. Diehr:

You requested Wilshire's opinion with respect to Staff's proposal to graduate an internally managed portfolio from the Developmental Investment Fund.

Recommendation

Wilshire recommends that the Investment Committee approve the graduation of the Fan Long Only Portfolio, subject to the drafting and adoption of appropriate policy language.

Background

The Developmental Investment Fund was created by policy with the objectives of 1) furthering the knowledge base of CalPERS Investment Staff, 2) providing real time experience to determine the efficacy of new strategies, and 3) identifying the operational and investment risks associated with managing live assets in a proposed strategy before it is applied to a larger pool of assets. The Policy requires that any strategies in the Developmental Investment Fund be thoroughly researched, grounded in solid investment logic, and back-tested to evaluate the efficacy of the proposed strategy prior to it being implemented within the Developmental Investment Fund. After a period of no less than one year of live experience in the Developmental Investment Fund, Staff may propose to graduate the strategies out of the Developmental Investment Fund into the main portfolio.

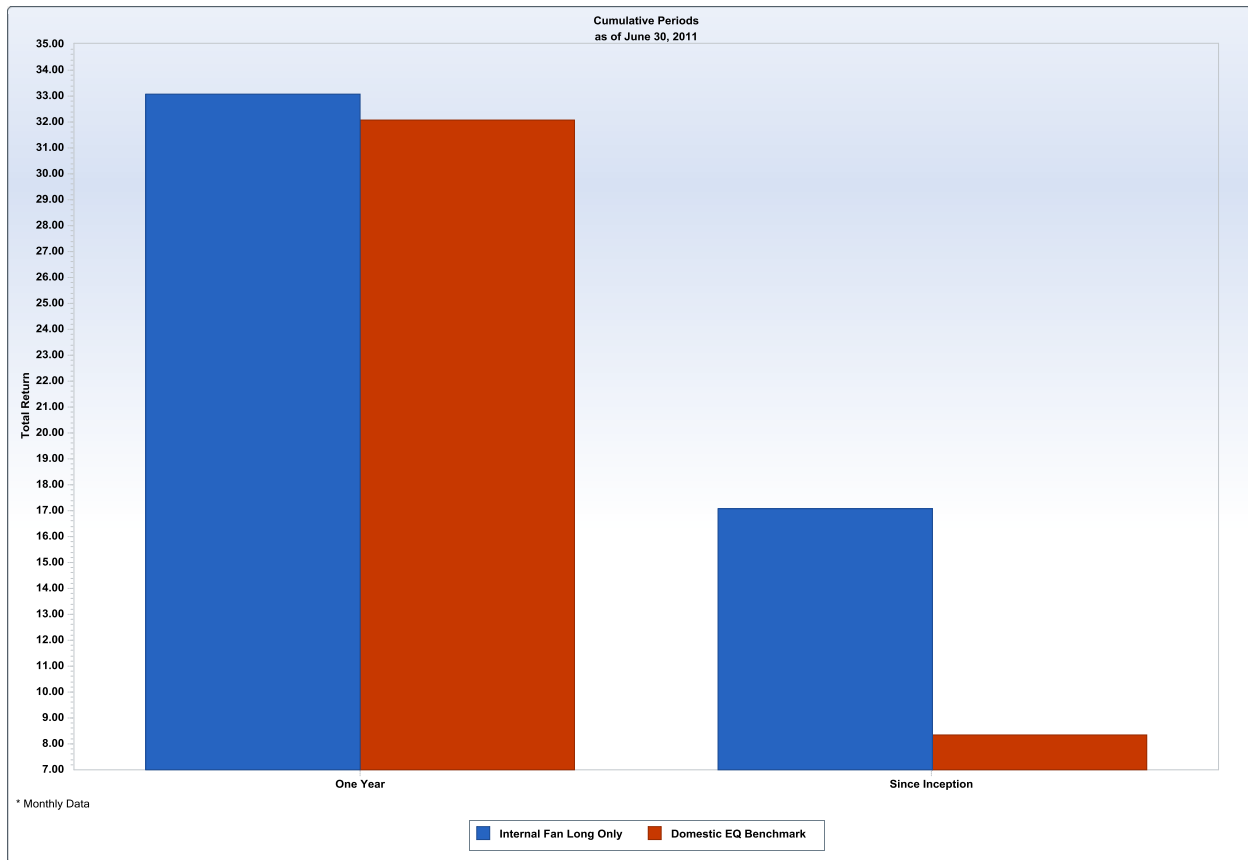
Following this process, Staff has been managing the Fan Long Only Portfolio for almost two years. This strategy offers broad large/mid cap exposure to the domestic market equity opportunity set, but seeks to capture outperformance relative to a market

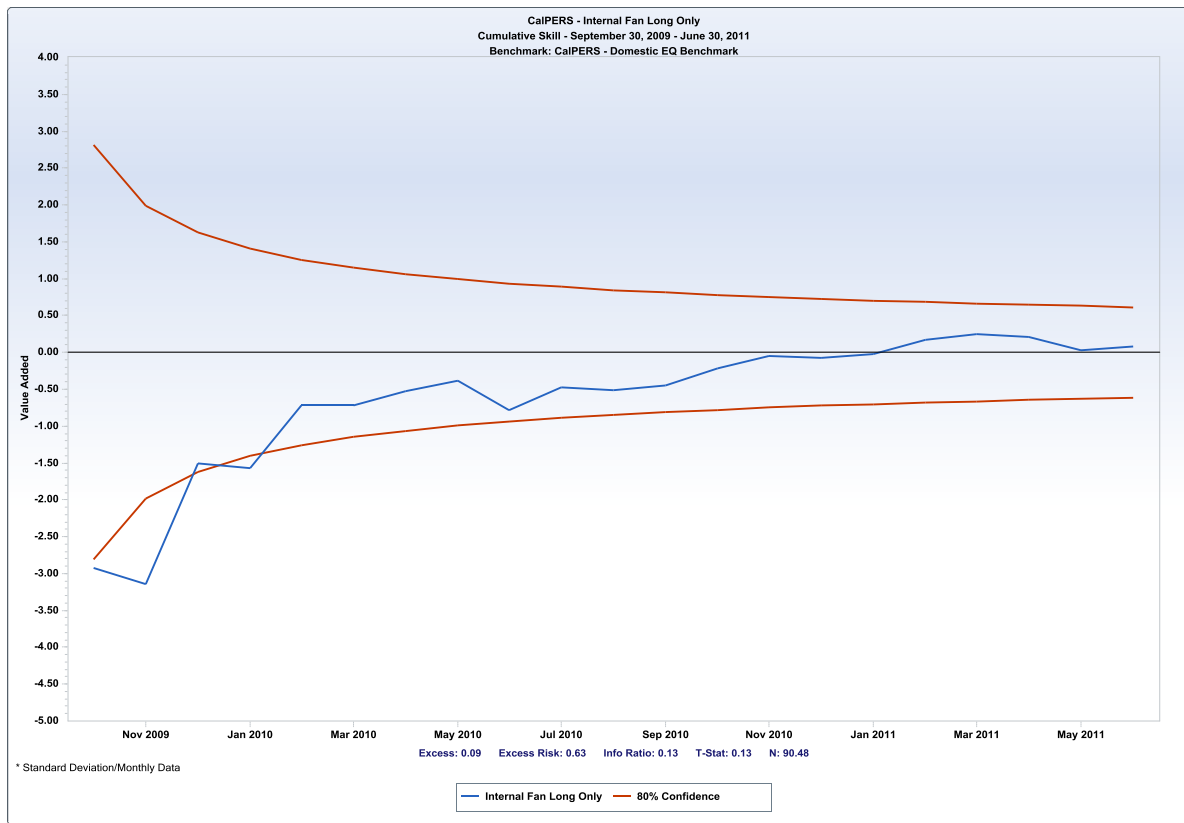
Wilshire Associates

370 Interlocken Boulevard Suite 620 Broomfield, CO 80021 TEL 303.626.7444 FAX 303.466.1537
www.wilshire.com

capitalization weighted benchmark by finding securities with rising prices and falling risks. This strategy is based on the research by an external party, Dr. Stephen Fan.

While the idea that superior returns may be gained from finding assets with rising prices is not unique, the application of Dr. Fan's research has generated positive returns for CalPERS, especially over the past year.





Given that Staff has satisfied the conditions for adding and graduating a strategy from the Developmental Investment Fund, we recommend that the Investment Committee approve graduation of this portfolio into a mainstream investment.

Please let us know if you have any questions or comments.

Best regards,

